

# Germany

## IFO survey adds emphasis to PMI's signal of renewed downturn risk

- IFO survey business climate index falls for second month running in April
- Survey consistent with weakening GDP growth
- Disappointing PMI and IFO surveys add to likelihood of ECB stimulus

A second successive monthly drop in the IFO survey adds to the PMI's message that the German economy could see a weakening of growth or even a renewed downturn in the second quarter.

The deterioration in the two surveys adds to growing worries that the eurozone's largest economy is being dragged back into contraction after a good start to the year. Anecdotal survey evidence indicates that business and consumer confidence has been hit by escalating worries about the region's debt crisis, centred in particular on the political stalemate in Italy and the botched Cypriot bail-out, at the same time that global growth is slowing once again.

With Germany facing the possibility of renewed decline alongside entrenched downturns in other struggling euro area countries, such as Spain, Italy and France, the data put additional pressure on the European Central Bank's governing council to stimulate the region's economy at its May meeting, either through a reduction in interest rates or other non-standard measures.

The IFO survey's indicator of expected future business conditions – which is the survey's most reliable indicator of current economic growth – fell for the second consecutive month in April, down from 103.6 in March to 101.6, its lowest reading for three months.

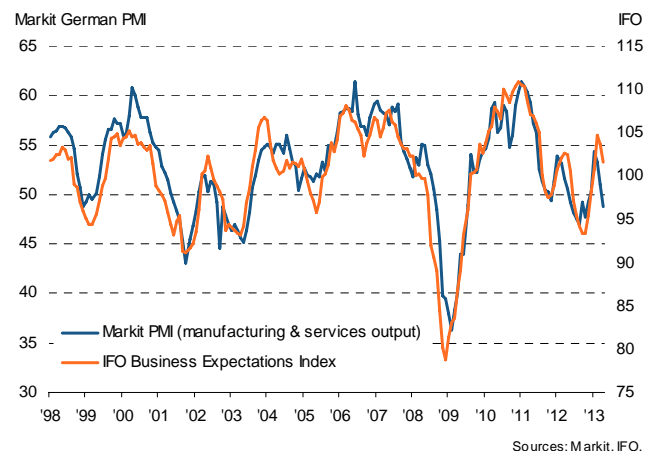
The downturn in the IFO index follows the release of Markit's flash PMI for Germany on Tuesday, which showed the private sector contracting for the first time in five months in April.

The PMI is signalling a steeper downturn of business activity in Germany than the IFO, but history suggests that the IFO will continue to follow the PMI down in May.

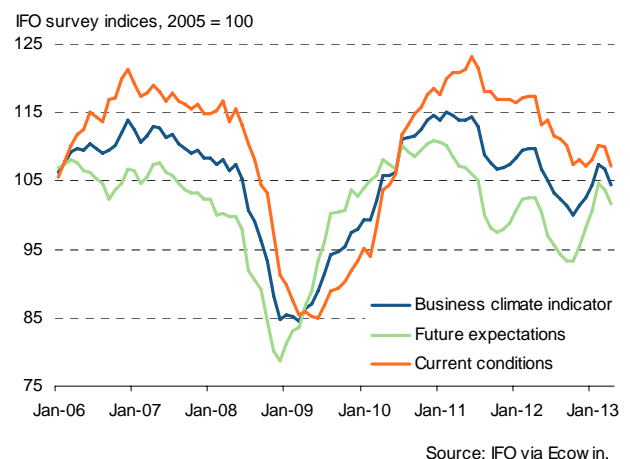
The average reading of the IFO expectations index in the first quarter is consistent with a 0.5% GDP rise, slightly above the 0.3% increase signalled by the PMI. In April, the IFO signal is one of quarterly GDP growth weakening to 0.4%, which compares with a 0.1% rate of contraction signalled by the PMI.

The IFO's index of current conditions also fell for a second successive month in April, down from 109.9 in March to a four-month low of 107.2, meaning the business climate index (an average of the current and expectations indices) also fell, down from 106.7 to a three-month low of 104.4.

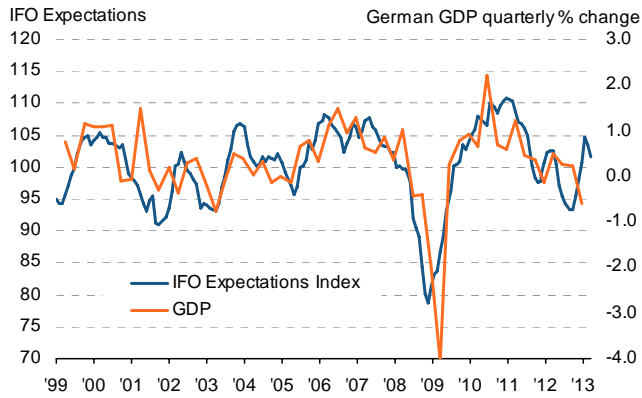
### PMI and IFO compared



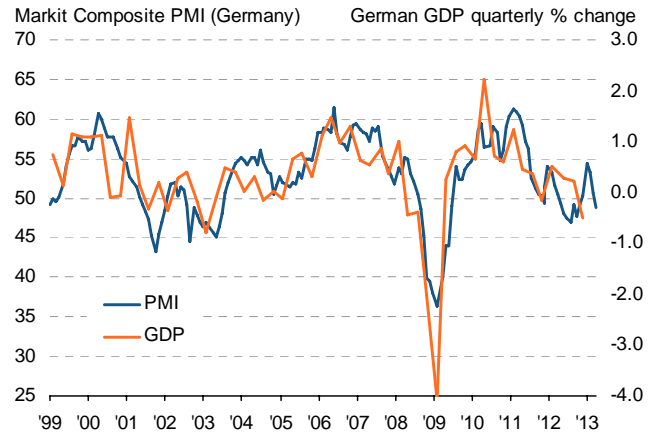
### IFO survey indicators



**IFO expectations v GDP**



**PMI v GDP**



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